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July 10, 2006

John N. Hughes, Esq.
124 West Todd Street
Frankfort, Kentucky 40601

David Edward Spenard, Esq.
Assistant Attorney General
1024 Capital Center Drive
Suite 200
Frankfort, Kentucky 40601-8204

Re: Case No. 2006-00123
Mountain Water District

Gentlemen:

The enclosed memorandum has been filed in the record of the above-referenced case. Any comments regarding this memorandum's contents should be submitted to the Commission within five days of receipt of this letter. Any questions regarding this memorandum should be directed to Gerald Wuetcher, Assistant General Counsel, at (502) 564-3940, Extension 259.

Sincerely,

A large, stylized handwritten signature in black ink, appearing to read "Beth O'Donnell".

Beth O'Donnell
Executive Director

gw
Enclosure
cc: Parties of Record

Honorable John N. Hughes
Attorney at Law
124 West Todd Street
Frankfort, KY 40601

Honorable David Edward Spenard
Assistant Attorney General
Office of the Attorney General
Utility & Rate Intervention Division
1024 Capital Center Drive
Suite 200
Frankfort, KY 40601-8204

INTRA-AGENCY MEMORANDUM

KENTUCKY PUBLIC SERVICE COMMISSION

TO: Case File No. 2006-00123

FROM: Gerald Wuetcher
Deputy General Counsel

DATE: July 10, 2006

RE: Telephone Conference Call of June 30, 2006

On June 30, 2006 Commission Staff conducted a telephone conference call in this case. Participating were:

Eddie Beavers	-	Commission Staff
Mark Frost	-	Commission Staff
Daniel Hinton	-	Commission Staff
Gerald Wuetcher	-	Commission Staff
Roger Rectenwald	-	City of Pikeville
Will Brown	-	Mountain Water District
Trish Varney	-	Mountain Water District

Commission Staff initiated the conference call to advise Mountain Water District and the City of Pikeville of ambiguities in their response to Commission Staff's First Set of Interrogatories. John Hughes, the Joint Applicants' legal counsel, was not available for the conference call but was informed of the call and agreed to its occurrence without his participation.

Beginning the conference, Mr. Wuetcher stated that Commission Staff would prepare minutes of the conference for the case record, that a copy of these minutes would be provided to all parties, and that all parties would be given an opportunity to submit written comments upon those minutes.

Mr. Frost pointed to Item 2 of the Joint Applicants' Response and stated that the balances for certain Kentucky Infrastructure Authority loans and for bonds issued to Rural Development are not consistently reported. Mr. Brown and Ms. Varney stated the discrepancies are likely due to the use of different report dates. Mr. Frost stated that Commission Staff would request the outstanding balances of these debt instruments as of June 30, 2006.

Mr. Frost then inquired about the status of Mountain Water District's request to Rural Development for approval to assign existing debt to the City of Pikeville. Mr.

Recktenwald stated that Rural Development had yet to rule upon the request. Mr. Frost noted that, if Rural Development failed to make a ruling prior to July 19, 2006, Commission approval of the proposed transfer of facilities would likely be conditioned upon the Joint Applicants obtaining Rural Development's approval of the transfer of the debt obligation.

Mr. Frost then referred to Item 11 of the Joint Applicants' Response and requested a detailed income statement of Mountain Water District's sewer operations that reflects the removal of all revenues and expenses related to the Mossy Bottom Sewage Collection System. He stated that Commission Staff is concerned about the financial viability of Mountain Water District's remaining sewage operations after the proposed transaction occurs. The requested income statement would resolve these concerns. Mr. Frost and Mr. Brown then discussed the essential elements of such an income statement.

Mr. Hinton then discussed Mountain Water District's proposed accounting entries to account for the proposed transfer of facilities. He noted that the entries should provide for the original cost of the facilities to be transferred, along with any related amounts carried in the accumulated depreciation, advances for construction, and contributions in aid of construction accounts. Ms. Varney noted that such entries were difficult because Mountain Water District lacked actual cost information. Mr. Frost and Mr. Hinton stated that reasonable estimates could be used. They also inquired whether the original construction documents were available. Mr. Reckenwald and Ms. Varney stated that these documents might be available and that revised entries could be submitted based upon these documents.

The conference then adjourned.

cc: Parties of Record